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SOME

# QUESTIONS ON BANKING

WITH

## ANSWERS THERETO

BEING THE QUESTIONS SET IN THIS SUBJECT AT  
THE FINAL EXAMINATIONS (1895 TO 1906)  
OF THE INSTITUTE OF BANKERS (LONDON)  
AND THE ANSWERS THERETO,  
TOGETHER WITH  
A SHORT ACCOUNT OF THE ENGLISH BANKING CRISES  
OF 1847, 1857, 1866, 1878, 1890,  
AND OF THE AUSTRALIAN BANKING CRISIS OF 1893.

BY

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SECOND EDITION.  
(ENLARGED.)

London:

PRINTED AND PUBLISHED BY  
BLADES, EAST & BLADES, 23, ABCHURCH LANE, E.C.  
EFFINGHAM WILSON, 54, THREADNEEDLE STREET, E.C.

1907.

93 / 21  
26 / 11 / 08



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**FIRST EDITION. April, 1906.**

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## AUTHOR'S NOTE.

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Several of these answers were contributed by me to the "Bankers' Magazine," and I have to express my thanks to the proprietors thereof (Messrs. Waterlow & Sons, Ltd.) for permission to include them in this book.

P. E. B.

## QUESTIONS AND ANSWERS ON BANKING.

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*Q. 1.—Give some account of the various classes of Banks existing in the United Kingdom, stating the difference between their constitutions.*

*A.*—The various classes of banks existing in the United Kingdom may be grouped under three heads.

(1) Banks incorporated by Act of Parliament or by Royal Charter. The chief of these banks is the Bank of England, which was established by an Act passed in 1694. The benefits enjoyed by such banks as compared with private partnerships are that they have the privileges of a corporation, the power to make bye-laws, to enjoy in their several partners freedom from any responsibility beyond the stock held, with the power of selling their shares; their debts affect only their stocks, and individual members cannot be called on to make up any deficiency to the creditors. Under an Act passed in 1825, it is open to the Crown, when granting charters, to make the individual members liable for the debts of such corporations to any extent, and subject to such regulations as may be deemed proper. It is by virtue of this Act that the shareholders of most of the chartered Colonial and Indian banks in London are liable for double the amount of their shares. Banks may also be formed under 1 Vict., c. 73; this Act gives the Crown power to grant by letters patent under the great Seal any privileges which could be granted by a charter of incorporation

to any body of persons associated together for trading and other purposes though not incorporated.

(2) Joint Stock Banks. The Companies Act of 1862 prohibited the formation for the purpose of carrying on the business of banking of any company, association, or partnership, consisting of more than ten persons, unless such is registered under the Act or formed in pursuance of some other Act of Parliament, or of letters patent. Existing banking companies or partnerships were allowed to register under it, and all companies so registered are required to publish half-yearly statements of their capital, shares issued and calls made, liabilities and assets, and their accounts must be audited yearly. The liability of shareholders may be either unlimited or limited. Some of the existing banks are governed by Acts passed prior to 1862. After the failure of the City of Glasgow Bank in 1878, the dangers of unlimited liability were so impressed upon bank shareholders that an Act was passed in 1879, under which unlimited companies could register themselves as limited companies, and companies already registered as limited companies could register themselves under the Act of 1879. This Act also gave certain powers of creating reserve capital, available only in the event of and for the purposes of liquidation. The great majority of the banks interested took advantage of the Act.

(3) Private Banks. These consist of unincorporated partnerships of not more than ten persons carrying on the business of banking. Prior to 1857, the limit to such partnerships was six. Private bankers, in common with all other bankers, are bound to make yearly returns of the name, residence, and occupation of every person comprising or being a member of the partnership, the name under which the business is carried on, and the name of every place where such business is carried on. The members of such partnerships are liable for all the debts of the firm.

As regards those banks which still issue notes, the liability of shareholders continues unlimited in respect of such notes, notwithstanding the fact that the banks may have registered themselves as limited companies under the Companies Acts. If, when a bank which issued notes is wound up, it is found that the general assets are insufficient to satisfy the claims of both the note holders and the general creditors, the members, after satisfying the remaining demands of the note holders, will be liable to contribute towards payment of the debts due to the general creditors a sum equal to the amount received by the note holders out of the general assets of the company.

In addition to the above groups, we may mention the Trustee Savings Banks, which are regulated mainly by 26 and 27 Vict., c. 87, and the Post Office Savings Bank, established in 1861 by an Act designed to grant additional facilities for the depositing of small savings at interest, with the direct security of the State for the repayment of the deposits.

*Q. 2.—Give some account of the law with regard to bankers' licenses, their amount, and the conditions under which they are required.*

*A.*—A banker's license is a license which has to be taken out yearly by any banker who issues promissory notes for money payable to bearer on demand, or promissory notes payable to order not exceeding seven days' sight, or bills to order on demand or not exceeding seven days' sight or twenty-one days' date, unstamped, under composition. The amount thereof is £30, and the license runs from October 11th in any one year to October 10th in the succeeding year.

Bankers' licenses were introduced by 48 Geo. III, c. 149, in terms of which bankers issuing and re-issuing stamped promissory notes payable to bearer on demand were required to take out a license yearly.

The license cost £20, but one license was sufficient for all places of issue at the time of the Act. An additional license was required for every new office at which notes were issued. By 55 Geo. III, c. 184, the amount of the license was increased to £30 a year, and a license was to be taken out for every place where such promissory notes were issued by or on account of the issuer. This Act described the license as a "license to be taken out yearly by any banker or bankers or other person who shall issue any promissory notes for money payable to the bearer on demand, and allowed to be reissued."

By 7 Geo. IV, c. 46, corporations and co-partnerships of more than six persons were allowed to carry on the business of banking at a distance of sixty-five miles from London, provided they had no establishment as bankers in London, and were authorised to issue and reissue bank notes payable to bearer on demand unstamped, on giving security for the due payment of the composition to be paid in lieu of stamp duty—seven shillings for every one hundred pounds, and also for the fractional part of one hundred pounds of the average amount of the notes in circulation. No corporation or co-partnership authorised by the Act to issue notes was required to take out more than four licenses.

The power to issue unstamped promissory notes was extended by 9 Geo. IV, c. 23, which enacted that it should be lawful for any person or persons carrying on the business of a banker or bankers in England, except within the City of London, or within three miles thereof, on obtaining a license and giving security for the due payment of the composition, to issue on unstamped paper promissory notes for any sum amounting to £5 or upwards, and expressed to be payable to the bearer on demand or to order at any period not exceeding seven days after sight, and to draw and issue on unstamped paper bills of exchange

expressed to be payable to order on demand, or at any period not exceeding seven days after sight, or twenty-one days after date, provided such bills of exchange are drawn upon a person or persons carrying on business of a banker or bankers in London, Westminster, or Southwark, or provided such bills of exchange are drawn by such banker or bankers at a town or place where he or they are duly licensed to issue unstamped notes or bills upon himself or themselves payable at any other town or place where he or they are also duly licensed. No change was made in the amount of the license, but the amount of the composition was altered to 3*s.* 6*d.* for every one hundred pounds, payable every six months on the average amount or value of the notes and bills in circulation during the half-year. The limitation of the number of licenses to be taken out—four—was made general.

The last Act to affect the powers exerciseable on the taking out of a license was 7 and 8 Vict., c. 32, which limited the right to issue notes payable to bearer on demand to those bankers who were lawfully so doing on May 6th, 1844, under the authority of a license to that effect, and required every banker who is liable by law to take out a license to authorise the issuing of notes or bills, to take out a separate and distinct license for every town or place at which he or his agent issues notes or bills requiring such license; but a banker who, on May 6th, 1844, had taken out and had in force four licenses for the issue of notes at more than four places, was not required to take out more than four licenses in respect of the towns at which he was then issuing notes or bills.

*Q. 3.—Describe the different methods in which a banker employs his resources, placing them in order of their availability in time of need, and state roughly the*

*average proportion of each holding that is usually maintained by the London banks.*

A.—The various methods in which a banker employs his resources may be grouped under seven heads :—

(a) Cash held to meet the ordinary requirements of his customers, with some margin to provide for sudden and unexpected demands.

(b) Loans to bill brokers, repayable either at call or at the termination of a fixed period, seldom exceeding seven days : the security received against the loans consists of bills which the brokers have discounted, and, to a limited extent, certain first-class interest-bearing securities.

(c) Investments in British Government and other first-class securities.

(d) Loans to members of the Stock Exchange from settlement to settlement, against the deposit of securities valued at from 5 to 20 per cent. above the amount lent thereagainst.

(e) Discounting of bills for customers, including the bill brokers.

(f) Advances to customers against various classes of securities, such as bills of lading, title deeds, merchandise, Stock Exchange securities, guarantees of third parties, etc.

(g) Bank premises, furniture, etc.

As regards the banker's investments, premises, etc., their value is usually much above that at which they figure in his balance sheet, owing to the practice of using part of profits earned from time to time in reduction of their cost. The published statistics relative to the London banks show that they keep about 15 per cent. of their total funds in cash (including their balances at the Bank of England), and utilise about 15 per cent. in loans to bill brokers and to members of the Stock Exchange, about 20 per cent. in

investments in first-class securities, about 48 per cent. in discounting bills, advances, etc., the remaining 2 per cent. representing the value of their premises, furniture, etc.

*Q. 4.—What is meant by “ money at call ” ? Describe the advantage to a banker of so employing his funds, and the part such funds play in the money market.*

*A.*—“ Money at call ” is such money as has been lent on the understanding that the lender can withdraw it from the person to whom he has lent it, whenever he requires the money. There are two kinds of “ money at call ” in the London market—the one on which interest is paid at the current rate advertised by the bill brokers as that which they are prepared to pay for such moneys, and the other on which the interest varies day by day in sympathy with the fluctuations in the market rate.

The advantage of employing part of his funds in this way is that, while he obtains interest thereon, the banker can always withdraw all or any part thereof whenever required, without even a day's delay, in the event of his having sudden calls made upon his resources. It is, however, customary for any requirements to be notified to the broker with whom the banker has his call money by noon at latest on any day.

Money at call, particularly that included in the first category mentioned above, may be described as, in a sense, part of the working capital of the bill brokers, and any permanent contraction in the total amount at their disposal would reduce the funds available for the discount of bills. It often happens that temporary withdrawals have to be made, and in such cases, unless the brokers can borrow from other lenders, market rates will stiffen, and may cause the brokers to have to obtain advances from the Bank of England.

*Q. 5.—Describe the circumstances that led to the passing of the Bank Act of 1844, and state its principal objects.*

*A.*—Notwithstanding the disastrous consequences which had resulted from the over-issue of paper money during the time the Bank Restriction Act was in force, no check had been placed upon the extent to which a banker could issue his notes, and each banker was still allowed to use his own discretion in the matter. In 1826, an Act was passed authorising the establishment of banks with more than six partners beyond the 65 mile limit of London, and giving such banks the power to issue notes. Then, in 1833, banking partnerships of more than six partners were permitted to carry on business within the 65 mile limit, subject to their not issuing notes. At first few banks were formed under either of these Acts, but in 1835, 45 banks were formed, most of which had several branches. At the beginning of 1836, the exchanges were either at par or slightly in favour of England, a fact which showed that the currency was at the level required by the trade of the country. Hence any great additions to the circulating medium would be certain to depress the exchanges and cause a drain of bullion. Notwithstanding this possibility, the banks which had the right to issue notes did so in increasing quantities, continuing to do so even after the drain had in fact set in, and the Bank of England was attempting to check it by raising the rate of discount. The Bank of England itself was also to blame, for, notwithstanding the adverse state of the exchanges, no attempt was made to reduce its issues, which were unmistakeably excessive. The very state of affairs which had existed at the time of the Bullion Committee was again in existence, and as in 1810, so in 1840, discussion centred in the consideration of the principles which should govern the issue of notes. Two schools of opinion existed, each with supporters

whose views were worthy of respect. One school upheld the "currency" principle, the other school the "banking" principle, as the method by which the issue of bank notes should be governed. The adherents of the "banking" principle considered that so long as the issuers of notes confined their issues to the legitimate requirements of the trade of the country, the notes could not be issued to excess. On the other hand, the members of the "currency" school held the view that there was great danger in allowing the issuers of notes to act as seemed best to themselves, and that the danger of over-issue was one which should be carefully guarded against.

The result of the controversy is embodied in the Bank Act of 1844, which practically carries out the views of the "currency" school. The objects which the framers of the Act had in view were three:—

- (1.) To prevent, by early and gradual reduction, severe and sudden contraction and the panic and confusion inseparable from it.
- (2.) To maintain and guarantee the convertibility of the paper currency into gold.
- (3.) To prevent the difficulties which arise at all times from undue speculation being aggravated by the abuse of paper credit in the form of promissory notes.

(*Vide* Sir Robert Peel's speech in the House of Commons when moving for a Committee to enquire into the causes of the commercial crisis of 1847.)

It was further stated by Mr. Cotton, the Governor of the Bank of England in 1844, when giving evidence before the Committee, that the ultimate object of the Act was the establishment of one bank of issue.

*Q. 6.—Give a short account of the Bank Act of 1844, distinguishing its three principal enactments.*

A.—The Bank Act of 1844 (7 & 8 Vict., cap. 32) is entitled “An Act to regulate the Issue of Bank Notes, and for giving to the Governor and Company of the Bank of England certain privileges for a limited period.” The Act contains twenty-eight clauses. Clause 1 provides for the separation of the Bank of England into two departments—the Banking Department and the Issue Department—and for the issue of notes to be conducted and carried on by the Issue Department. Clauses 2 to 9 contain the regulations relative to the issue of notes by the Bank of England. Clauses 10 to 22 deal with the conditions under which the other issuers of notes are allowed to continue their issues. The remaining clauses relate to the surrender of their issues to the Bank of England by country banks under composition, and to the conditions under which the Bank of England enjoys its privileges.

The provisions of the Act may be summarised under the following heads, the first three being the chief enactments.

1. The issue of notes by the Bank of England is to be kept distinct and separate from the Bank's ordinary banking business, and is to be conducted and carried on by a separate department to be called the “Issue Department of the Bank of England.” The Banking Department was instructed to hand over to the Issue Department securities to the value of £14,000,000 (including the debt due by the public to the Bank) and so much of the gold coin and silver coin as it did not require, and to receive in exchange therefor an equal value in notes. Any further issue of notes by the Issue Department was to be made only against gold or silver, or in exchange for notes. The silver held by the Issue Department was not to exceed one-fourth part of the gold coin and bullion held.

2. The Bank is allowed to increase the issue of notes against securities to the extent of two-thirds of the lapsed issues of any banker discontinuing to issue his notes. Before the Bank of England can do so, it requires the authority of an Order in Council, and the profit derived from such additional issues belongs to the public. This profit is at present calculated at the rate of 2 per cent. per annum on the fiduciary issue in excess of the above sum of £14,000,000.

3. The issue of notes by bankers, other than the Bank of England, is limited to those bankers who were lawfully issuing their notes on the 6th May, 1844. The limit to which each banker was allowed to issue notes in the future was fixed; this was done by finding the average circulation of his notes during the twelve weeks next preceding the 27th April, 1844. If a banker's average monthly issue exceeds this limit, he forfeits a sum equal to the amount by which the average monthly circulation exceeds his authorised issue. Bankers issuing notes are to lose the right to do so, by becoming bankrupt, by ceasing to issue, and in the case of partnerships of six or less partners, by increasing their number above six. Every banker issuing notes must send a weekly account of his issues to the Commissioners of Stamps and Taxes. A separate license has to be taken out for every place at which a banker issues notes or bills (*see Answer to Q. 2*), four licenses, however, to be sufficient for all places at which a banker was issuing notes on the 6th May, 1844.

4. The Bank of England is relieved from the payment of stamp duty upon its notes, it in its turn making, in consideration of the privileges of exclusive banking, and the exemption from stamp duty, an allowance to the Government of an annual sum of £180,000 out of the charges made by it for the management of the unredeemed public debt.

5. The public are given the right of demanding

notes from the Issue Department in exchange for gold bullion at the rate of £3 17s. 9d. per ounce of standard gold.

6. The Bank of England must issue weekly a statement of the assets and liabilities of the Banking and Issue Departments respectively.

7. All bankers are to return yearly the names of all partners or shareholders.

8. Banking firms carrying on the business of banking in London, or within 65 miles thereof, are allowed to draw, accept or endorse bills of exchange, not being payable to bearer on demand.

9. The Bank of England was authorised to compound with banks desirous of withdrawing their own issues and issuing the notes of the Bank of England.

10. The Bank of England was to enjoy the privileges secured by the Act, subject to cancellation upon twelve months' notice at any time after 1855, combined with the repayment of the debt due by the public to the Bank, and of all sums and arrears whatsoever owing to it by the Government.

*Q. 7.—Quote as nearly as possible a recent Return of the Bank of England; describe the items, distinguishing particularly the relations between the bullion held and the composition of the banking reserve.*

*A.*—The Return issued by the Bank of England for the week ended Wednesday, April 5th, 1905, was as follows :—

#### ISSUE DEPARTMENT.

Notes issued ...	£55,220,945	Government Debt ...	£11,015,100
		Other Securities ...	7,434,900
		Gold and silver coin ...	36,770,945
	<hr/> £55,220,945 <hr/>		<hr/> £55,220,945 <hr/>

BANKING DEPARTMENT.

Proprietors' Capital ...	£14,553,000	Government Securities	£15,443,673
Rest ... ..	3,163,832	Other Securities ...	28,571,965
Public Deposits ...	12,797,002	Notes ... ..	26,460,880
Other Deposits ...	41,830,513	Gold and silver coin ...	1,973,724
Seven day and other bills ... ..	105,895		
	<u>£72,450,242</u>		<u>£72,450,242</u>

Including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts.

J. G. NAIRNE, *Chief Cashier.*

Dated 6th April, 1905.

From the Return of the Issue Department, we see that at the close of business on April 5th, the Bank of England had its notes issued outstanding to the extent of £55,220,945, against which it held coin and bullion for £36,770,945, and securities for £18,450,000. Under the Bank Charter Act of 1844, the Bank of England was authorised to issue notes to the extent of £14,000,000 against securities, and given the power to increase this "fiduciary issue" on any country bank ceasing to issue notes, to the extent of two-thirds of the lapsed issue of such country bank, and it is through the exercise of the right so conferred, that the issue against securities has increased from £14,000,000 to £18,450,000.

It will be noticed that of the notes issued by the Issue Department, £26,460,880 were held by the Banking Department; hence, notes for £28,760,065 were in the hands of the public—including the other banks—and constituted the "active circulation" of the Bank of England at the date of the Return.

In the Return of the Banking Department, the first item is "Proprietors' Capital." The amount thereof—£14,553,000—is the largest paid-up capital of any bank in the world, and gives to the Bank of England a position of absolute stability and unrivalled strength.

The "Rest" consists of the undivided profits to date of the Bank's business. As the Directors never allow

this fund to fall below £3,000,000, it is to that extent of the nature of a "reserve fund."

The amount standing to the credit of "Public Deposits" represents the balances at the credit of the accounts of the British Government departments, the Secretary of State for India, and kindred accounts. The amount at the credit of "Public Deposits" varies from about £6,000,000 to £14,000,000, being greatest usually during March of each year, when the collection of income-tax is at its height.

The amount due in respect of "Other Deposits" represents the Bank's liability to its ordinary customers, including the chief London banks, which keep their floating balances with the Bank.

The balance at the credit of "Seven day and other bills" represents the Bank's liability in respect of bills issued by its branches at a currency of "seven days fixed" for remittance purposes.

Turning to the assets side of the Banking Department, the first item is "Government Securities." These are such securities held by the Bank as yield an income guaranteed by the British Government—Consols, Exchequer bills, Treasury bills, etc.

The "Other Securities" include the Bank's investments in Indian, Colonial, and Corporation securities, bills under discount, and advances to bill brokers, and to its ordinary customers. The total at the debit of "Other Securities" usually increases at the end of each month, when the bill brokers are compelled to obtain temporary advances from the Bank, owing to the calling in of loans by the London bankers for balance-sheet purposes. The "Notes" and "Gold and silver coin" jointly constitute the "reserve," the actual cash held to meet the liabilities of the Banking Department to the public, that is, in respect of Public Deposits, Other Deposits, and Seven day and other bills. In the Return given, it will be noticed that they amount to £28,434,604, as compared with liabili-

ties to the public of £54,733,410 ; hence the ratio of cash held to liabilities was, on April 5th, almost 52 per cent.

Although at the date of the Return the Issue Department held gold and silver coin valued at £36,770,945, that amount was not available for the requirements of the Banking Department. This Department is in the same position as the general public so far as the gold in the Issue Department is concerned, in that it can avail itself of the gold there by, and only by presenting for payment the notes of that Department. Further, the notes held by the Banking Department can be considered as cash only so long as the Issue Department holds gold to an equivalent value. For instance, taking the position as disclosed in the above Return, if the notes in the hands of the public were presented for payment and encashed, to, say, the extent of £25,000,000, the gold and silver held by the Issue Department would be reduced to £11,770,945, and the notes held by the Banking Department would be unrepresented by gold to the extent of £14,689,935. No doubt, in practice, the notes held by the Banking Department would have been cashed long before such a state of affairs was reached.

*Q. 8.—Describe the conditions under which bank notes are issued by :—*

- (a) *The Bank of England :*
- (b) *The private banks of England and Wales :*
- (c) *The joint-stock banks of England and Wales :*
- (d) *The Scotch banks :*
- (e) *The Irish banks.*

*A.—(a) The Bank of England.* Under the Bank Charter Act of 1844, the Bank of England is authorised to issue notes to the extent of £14,000,000 against securities to an equal value. For every note

issued in excess of this sum, the Act required the Bank to hold an equivalent amount of coin and bullion (the silver held not to exceed one-fourth part of the gold held). Should, however, any of the other banks authorised by the same Act to issue notes cease to do so, the Bank of England was given power (subject to an Order in Council) of increasing its fiduciary issue to an extent not exceeding two-thirds of the lapsed issue; but the profit on such further issues belongs to the public. It is by virtue of this provision that the fiduciary issue of the Bank of England now stands at £18,450,000.

(b) The private banks of England and Wales. Under the Bank Charter Act of 1844, those private bankers—banking partnerships of six or less partners—who were lawfully issuing their notes on May 6th, 1844, are permitted to continue so doing so long as the number of partners does not exceed six, but a limitation is placed upon the extent of their issues, which must not exceed the average amount of their notes in circulation during the twelve weeks preceding April 27th, 1844; the penalty in case of their exceeding this limit is a sum equal to the excess. A return of the notes in circulation must be rendered monthly by each issuing banker, and a yearly license taken out for each place at which he issues his notes. Four licenses are, however, sufficient to cover all places at which notes were being issued by a banker at the time of the passing of the Act. There is no obligation imposed on these bankers of holding any gold or silver in their tills against the notes issued by them.

(c) The joint-stock banks of England and Wales. Those joint-stock banks which were lawfully issuing their notes on May 6th, 1844, are permitted to continue to do so on the same conditions as those imposed on the private bankers. Before the Act of 1844, these banks were not allowed to carry on the business of banking in London or within sixty-five miles of

London ; the Act left this restriction in force so far as the issue of notes was concerned, and any such bank opening an office within this area loses its right to issue notes.

Hence, in England and Wales, the issuers of notes may be divided into three groups :—

- (1) The Bank of England, which has a monopoly in London and for a circuit of three miles from St. Paul's Cathedral, the private bankers of London having given up the issue of notes before 1844.
- (2) The Bank of England, and the private bankers who were issuing notes on May 6th, 1844, have the monopoly of note issue between three and sixty-five miles of London.
- (3) Beyond the sixty-five mile limit, all the banks which were lawfully issuing their notes in 1844, the Bank of England, the private bankers and the joint-stock banks, subject to the above conditions, have the monopoly of note issue.

(d) The Scotch banks. The issue of notes in Scotland is regulated by 8 and 9 Vict., c. 38 (1845). By this Act those banks which were issuing their notes on May 6th, 1844, are allowed to continue to issue their notes to the extent of their average issue during the year ending May 1st, 1845, and of the amount of gold and silver coin held by them at their head offices. Returns of the notes in circulation and of the coin held must be rendered weekly, and a calculation made every fourth week of the average amount of notes issued and coin held. In case of the limit being exceeded, the bank at fault forfeits a sum equal to the excess. The Scotch banks do not lose their right to issue notes by opening branches in England.

(e) The Irish banks. The issue of notes in Ireland is regulated by 8 and 9 Vict., c. 37 (1845). The conditions are similar to those regulating the issue of notes in Scotland.

*Q. 9.—Describe the conditions under which the Bank of England issues notes, and the position of the note holder with regard to the gold held by the Bank.*

*A.*—For the conditions under which the Bank of England issues notes, *see* Answer to Q. 8.

When, in 1844, the Bank of England was divided into two departments, and the business of issuing notes allocated to the Issue Department, it was expressly laid down by clause 2 of the Bank Act that the notes in circulation, including the notes handed to the Banking Department in exchange for its securities and surplus gold coin and gold and silver bullion, were to be deemed to be issued on the credit of such securities, coin and bullion, so appropriated and set apart to the Issue Department. This clause would appear to make the assets of the Issue Department specially hypothecated to the notes issued by it. There are, however, some who hold that the note holders do not possess this advantage over the creditors of the Banking Department, and that, if the Bank of England were to fail, all creditors would rank equally.

*Q. 10.—Give some account of the conditions under which the Bank of England issues notes, and the manner in which the convertibility of the note is assured.*

*A.*—For the conditions under which the Bank of England issues notes, *see* Answer to Q. 8.

The convertibility of the notes issued by the Bank of England is practically assured by the conditions laid down by the Bank Charter Act, which created the Issue Department of the Bank, and provided that for every note issued in excess of the amount authorised to be issued against securities, the Department must hold gold and silver coin or bullion. Hence there is at present in the vaults of the Issue Department of the Bank of England coin and bullion

sufficient to meet all the notes issued in excess of £18,450,000, the existing fiduciary issue, and it is assumed that, if the Bank were required to repay all its notes, it could sell the securities for cash and so provide for every note in circulation.

*Q. 11.—State briefly the difference between the conditions governing the note issues of the Bank of England, of the private and joint-stock banks of England and Wales, and of the banks of Scotland and Ireland.*

*A.*—The differences may be summarized under the following heads :—

(1) The extent to which notes may be issued:—

(a) The Bank of England is authorised by the Bank Act of 1844 to issue notes against securities to the extent of £14,000,000, and to increase the amount of notes so issued to the extent of two-thirds of any lapsed issue of the country banks. Any notes issued in excess of such amount must be covered by gold and silver.

(b) The private banks of England and Wales are allowed to issue notes, provided they were so doing on the 6th May, 1844, the maximum amount which any banker is allowed to issue depending on the average amount of the notes he had in circulation during the twelve weeks ending the 27th day of April, 1844.

(c) The joint-stock banks of England and Wales are subject to the same conditions as the private bankers.

(d) The Scotch banks which were issuing notes on the 6th May, 1844, are allowed to continue doing so to the extent of the average amount of their circulation during the twelve months ending the 1st May, 1845, and to the further

extent of the gold and silver coin held by the banks at their head offices.

- (e) The Irish banks which were issuing notes on the 6th May, 1844, are allowed to continue doing so to the extent of the average amount of their bank notes in circulation during the twelve months ending the 1st May, 1845, and to the further extent of the gold and silver coin held by them at their head offices.

(2) The securities against which the notes are issued :—

- (a) The notes of the Bank of England are issued against securities and gold held to an equivalent amount.

- (b) In all the other cases there is no special earmarking of assets to the service of the note issues.

(3) The liability of partners and shareholders for notes issued :—

- (a) Holders of Bank of England stock are not personally liable for the notes issued.

- (b) Banking partnerships and shareholders in joint-stock banks have an unlimited liability in respect of note issues.

- (c) The stockholders of the Bank of Scotland, the Royal Bank of Scotland, and the British Linen Company enjoy limited liability in respect of note issues; the liability of shareholders in the other Scotch banks is unlimited.

- (d) The liability of stockholders in the Bank of Ireland is limited; the liability of shareholders in the other Irish Banks is unlimited.

(4) The loss of the right to issue notes :—

- (a) The private bankers of England and Wales lose the right to issue notes on opening offices in London, or within three miles of St. Paul's Cathedral.

- (b) The joint-stock banks of England and Wales

lose the right to issue notes on opening offices within sixty-five miles of London.

(c) Neither the Scotch banks nor the Irish banks lose their right to issue notes by opening offices in England.

(5) The effect of amalgamation on the right to issue notes :—

(a) If two private bankers unite, then their authorised issues are joined, provided that by their union, the number of partners is not increased to more than six.

(b) If two English joint-stock banks amalgamate, then the authorised issue of one of them would be forfeited.

(c) If two Scotch banks or two Irish banks amalgamate, then the authorised issue of the amalgamated bank will be a sum equal to the aggregate of the amount of bank notes which the two banks were authorised to issue separately.

(6) The amount for which bank notes may be issued :—

(a) Bank notes for sums under £5 are illegal in England and Wales.

(b) Scotch and Irish banks may issue notes for £1 and multiples of £1.

*Q. 12.—Define the difference between the Scotch and English systems of note issue, and state the chief advantage derived by the bankers under the former system.*

*A.*—The chief difference between the Scotch and English systems of note issues is, that while the English banks (other than the Bank of England) authorised to issue their notes must not exceed the limits fixed by the Bank Act of 1844, the Scotch banks may exceed their authorised issues to the

extent of the gold and silver coin held by them at their respective head offices. Besides this, the Scotch banks may issue notes for £1. The result of these two advantages is that the Scotch banks are saved to a great extent the cost of moving coin from one centre to another, and, in addition, the circulation of their notes increases or diminishes according to the requirements of trade, thus reducing to a minimum the gold coin used in the trade of the country, and saving the wear and tear of the coin which would otherwise be in circulation.

*Q. 13.—What is the Mint price for gold and what the Bank of England price? Upon what is the first-named price founded, and what is the cause of the difference between that and the Bank price?*

*A.*—Under the Coinage Act, any person may take gold bullion to the Mint and receive the same again, assayed and coined, without charge, provided the bullion be of such character as not to require refining. Every ounce of standard gold (metal of which 11 parts out of 12 are pure gold and 1 part is alloy) is turned into £3 17s. 10½*d.* of coined money. It is this which is meant when the Mint price of gold is said to be £3 17s. 10½*d.* per oz. The Bank of England price is £3 17s. 9*d.* per standard ounce. The difference between the two prices is due to the fact that a person taking bullion to the Mint would have to wait until the metal was turned into coins; by taking the bullion to the Bank of England, he receives payment at once. The difference of 1½*d.* represents the theoretical loss of interest incurred by the Bank of England, and is equal to about twenty days' interest at 3 per cent. per annum. In practice, no one thinks of taking bullion to the Mint, all transactions being entered into with the Bank of England.

*Q. 14.—Explain the term Bank Rate, and compare the effect upon the money market in London of lower rates prevailing in Paris and Berlin.*

*A.*—Bank Rate is the minimum rate at which the Bank of England will discount approved bills or make advances on mercantile securities for short periods. The rate varies from time to time, and any alteration thereof is usually announced on Thursdays, that being the day of the week on which the Court of Directors meets to consider the monetary situation. In order to place its own customers on as favourable a footing as the customers of the other banks, the Bank of England discounts for them at the rates current in the open market.

Speaking generally, when the discount rate in London is higher than the rates ruling in Paris and Berlin, the exchanges tend to move in favour of London, and fewer bills will be sent to London for discount. At the same time, an investment demand for bills on London will spring up, further reducing the supply of bills offered for discount in London. The effect will be to relieve the London market and cause rates to tend to decline, or to check an upward movement. Whether the higher rates ruling in London will attract gold thither will depend upon the difference between the rates, and, in addition, upon the action taken by the Imperial Bank of Germany and the Bank of France respectively to protect their reserves. On the other hand, the possibility of gold leaving this country is made more remote when discount rates are higher in London. When lower rates are ruling in Paris than in London the effect will be greater than that produced by similar conditions in Berlin and London. There is far more French money in London than there is German money, and hence anything which tends to check the withdrawal of French balances will have a greater effect than that produced

by the possibility of the withdrawal of German balances becoming more remote.

*Q. 15.—Describe the meaning of the terms :—Bank rate, market rate, deposit rate, brokers' call rate, rebate rate. Give some description of the relations between these rates.*

*A.*—**Bank rate.** This is the minimum rate at which the Bank of England is prepared to discount bills, or to make advances on mercantile securities for short periods.

**Market rate.** This is the rate current in the open market for discounting first-class bills.

**Deposit rate.** This is the rate of interest which the banks are prepared to pay for money lodged with them on deposit and repayable after the expiry of a certain number of days' notice of withdrawal.

**Brokers' call rate.** This is the rate which the bill brokers are prepared to pay for money lodged with them subject to their having to repay the money to the lenders whenever called upon to do so. It is customary for the brokers to be informed by noon at latest of any sums which they will be required to repay on the same day.

**Rebate rate.** This is the rate at which acceptors of documentary bills are allowed to retire them before maturity. By the custom of London, the rate is  $\frac{1}{2}$  per cent. above the current deposit rate of the London banks.

The deposit rate is dependent upon Bank rate, and is usually  $1\frac{1}{2}$  per cent. below the current Bank rate. The market rate of discount is usually below the Bank of England rate, and the difference between the two rates will depend upon what the bill brokers themselves have to pay for the money borrowed by them for the purpose of their business from the banks and other lenders. The cheaper the brokers can borrow,

the lower will the market rate of discount be as compared with Bank rate. At times we see rates which are being paid by the brokers for their short loans higher than the current rate of discount in the open market, but, in the long run, the discount rate must be higher, otherwise no profit would accrue to those engaged in the business.

*Q. 16.—Give some account of the Bank of England in its relation to the Government, the other banks, and the public.*

*A.*—The Bank of England is the centre of the banking system of the United Kingdom, and is at the same time the banker of the Government and the banker of other banks. At the Bank of England are kept the Government and other public accounts, the total amount due by it on these accounts being given separately in its weekly statements. The Bank has a large share in the administration of the National Debt, the transfer books of all the Government loans being kept by it, and the dividends periodically due to stockholders distributed by it; any borrowings required by the Government are effected through it. The Bank also assists in the collection of the revenue. It further acts as the agent of the Mint, and is compelled by its charter to buy gold from the public at the rate of £3 17s. 9d. per oz. As the banker of other banks, it has become the centre of the English banking system; the surplus funds of all the great joint-stock banks are held by it on current account, thus making it the holder of the ultimate reserve of the banking community. Though it may not have the preponderating influence it once enjoyed, it still has great weight in the money market; its current minimum rate of discount regulates the interest charged on a great portion of bankers' advances, and variations in "Bank rate" are among the financial

events of the year. The bill brokers are practically dependent upon the Bank of England for assistance when the loans which they have from the joint-stock banks are called in temporarily by these institutions for the purpose of strengthening their position, either as an ordinary precaution or for balance-sheet purposes.

Its relation to the public is that which arises from its being one of the banks of the country ; current accounts may be opened with it, bills discounted by it, and ordinary banking business transacted. No interest is, however, allowed by it on deposits. It is also the chief issuer of bank notes ; its notes form part of the circulating medium of the country, and are legal tender throughout England and Wales.

*Q. 17.—State briefly the present position of the Bank of England, as towards the other banks, and mention any privileges still retained by it.*

*A.*—The Bank of England has become the central institution of the banking system of the United Kingdom, all the other banks having accounts either with it, or with banks that have. The chief banks which have drawing accounts at the Bank of England are those that are members of the London Clearing House. These institutions adjust their daily balances by a transfer of the amount to or from their accounts at the Bank of England ; and probably more than half of the “Other Deposits” consists of the surplus funds of these banks. The Bank of England thus holds part of the cash reserves of the other banks, employing a portion thereof in the money market, to the benefit of its own stockholders. It is, of course, in view of the nature of the deposits in its hands—the ultimate reserve of our banking system—that the Bank keeps so large a portion thereof in cash.

The Bank of England enjoys the privilege of being the banker to the British Government, the most im-

portant account which any bank could desire to have on its books. It acts as the agent of the Treasury in its various financial transactions, keeps the registers of stockholders, and pays the dividends on the National Debt and other Government issues. It has the privilege of issuing its notes—the only notes which are legal tender in England and Wales—to the extent of £18,450,000 (at present) against securities, and to any further extent against gold and silver, free from stamp duty, but subject to certain allowances off its charges to the Government, and to the surrender of the profit (calculated at 2 per cent.) on the fiduciary issue above £14,000,000. It also acts as the agent to the Royal Mint. (See also answer to Q. 16.)

*Q. 18.—Describe the discounting of a bill, the method of making the necessary entries, and the position of the discounters as towards the acceptor and the endorsers.*

*A.*—From the point of view of the person by whom the bill is discounted, the transaction is an advance made by him on the security of the names of the parties whose signatures appear on the bill—drawer, acceptor, and endorsers. He advances at once the amount of the bill due at a future date less interest on the amount for the time the bill has to run, at a rate arranged between himself and the person for whom he discounts it. The usual method of making the entries may be explained by taking a particular case. Mr. A. Brown, on January 1st, 1904, hands his bankers for discount at 3 per cent. per annum, a bill for £750, accepted by C. Davis, and due March 3rd. The bankers will calculate the interest on £750 from January 1st to March 3rd, 62 days at 3 per cent., £3 16s. 5d. They will then credit A. Brown with £750 in his current account, and debit their “bills discounted” account with £750, debiting him with the

£3 16s. 5d. discount and crediting their "discount" account with a like sum.

In ordinary cases, the discounters of a bill is a holder for value in due course, and, as such, will, in case of dishonour, have immediate right of recourse upon all parties to the bill, provided the necessary notices of dishonour are duly given.

*Q. 19.—What steps are necessary to obtain payment of a bill payable abroad (a) by negotiation, and (b) by collection?*

*A.—(a)* When a banker receives for negotiation from a customer a bill payable in a foreign country, he would forward it to his London office, or agents, with a request that it be sold. The bill would be handed by the recipients to one of the exchange brokers for sale in the foreign bill market, or direct to one of the foreign banks, who would buy it at the current market quotation.

If the bill is drawn in sterling, it must bear the "exchange as per endorsement" clause in order to make it readily negotiable.

*(b)* When a banker receives for collection a bill payable in a foreign country, he may send it direct to some banker in the place where it is payable—a course which he would probably follow if he had a correspondent at the place in question—who would, when the bill was paid, remit to him the proceeds of the bill by draft on London. Where he has no such agent, he may prefer to hand the bill to one of the foreign banks in London having a branch at the place, or to the London agents of a local banker. If the bill is drawn in sterling, it is desirable that it should bear the clause "payable at the current rate for bankers' sight drafts on London," and if it is intended that all expenses in connection with its collection are to be borne by the drawee, the following words in

addition : “together with stamps, commission and postages” (or “together with all charges”).

*Q. 20.—Explain the meaning of the term “Document Bill,” and state the advantages which it offers to a holder.*

*A.*—By the term “document bill” is meant a bill which has attached to it shipping documents for the goods against which it has been drawn. Whether the documents attached to such a bill are to be given up to the drawee of the bill on acceptance or on payment thereof, the holder has the additional security afforded by the possession of the shipping documents until the bill has been accepted, and in the latter case until the bill has been duly paid at maturity or under rebate. Should acceptance of the bill be refused or the bill be unpaid at maturity (the shipping documents being still in his possession), he has a lien over the goods represented by the bills of lading until the drawer or endorser liable to him has duly taken up the dishonoured bill.

*Q. 21.—What documents are usually attached to a bill, and what steps are necessary on the part of a holder to secure his rights therein?*

*A.*—The documents usually attached to a documentary bill are :—

(a) Invoices :

(b) Complete set of bills of lading for the goods mentioned in the invoices, drawn “unto order,” and endorsed by the shipper of the goods :

(c) Policy of insurance covering the value of the goods, duly endorsed by the person in whose favour it has been granted.

Directly the holder of such a bill hears that the vessel carrying the goods has reached the port to which the goods have been consigned, he should see

that the goods are duly landed and warehoused, and the risk of loss by fire covered by insurance. In practice, the holder of the bill usually allows the drawee of the bill to attend to these matters. He should then give notice in writing to the owners of the warehouse in which the goods have been stored, that he is the holder of the bills of lading, and that such goods are to be held to his order until released by him. An acknowledgment of his letter should be obtained from the warehouse owners.

*Q. 22.—What is the meaning of the term “hypothecated bill”? What is it that is hypothecated, and what is the object of hypothecation?*

*A.*—A hypothecated bill is a special kind of documentary bill. Although a banker, who negotiates a bill for a customer because it has attached to it shipping documents for goods against which it has been drawn, will have a lien over the goods in question should the bill be dishonoured, he has no implied authority to sell the goods in that event. In order that he may have that power, the goods must be hypothecated. This is done by means of a formal document, termed a “letter of hypothecation,” signed by the drawer of the bill, giving him power to realize the goods on default and to appropriate the proceeds in payment of the bill. Hence a hypothecated bill is a documentary bill, the holder of which has been given an immediate right of realization of the goods represented by the bills of lading, in case of dishonour.

*Q. 23.—What is the meaning of the term “exchange as per endorsement”? In what bills should it be inserted, and what is the object of so doing?*

*A.*—The clause “exchange as per endorsement” is a clause which is added to bills drawn in sterling

upon persons resident in other countries, and payable there, where the drawers of such bills wish to sell them, and are entitled to receive at once the exact amount in sterling for which they are drawn, the interest charged by the person buying the bills (allowed for in the rate of exchange at which they are purchased) falling to be paid by the drawees thereof. Unless the bills contained such a clause, they could not be sold in the foreign bill market, for the buyers would not be able to know the amount which they would receive in the foreign currency until the bills matured, the calculation then being usually made at the rate ruling for sight drafts on London, a course which, apart from the question of interest, sometimes entails a slight loss on the English drawer. Further, unless an adjustment were made between the drawers and drawees, the former would relieve the latter of any interest charge in respect of the time which elapsed between the date at which the money was due and the date at which it was actually received.

The use of the clause has been extended to bills drawn in sterling upon persons resident in British colonies, where the pound sterling is the current coin. Instead of adding the amount of the exchange—the amount which the negotiating banker charges for discounting the bill—to the invoice and drawing a bill for the sum thus produced, some merchants make out their bill for the invoice amount only, and add the words “with exchange as per endorsement” thereto. The bank which deals with the bill adds the exchange which it is charging to the face amount of the bill, and sends the bill forward for collection as if drawn for the face amount plus the exchange charged.

*Q. 24.—How and when is a bill noted, and what is the object of noting it?*

*Q. 25.—What is the object of noting a bill of exchange? In what cases should it be done, and how soon after dishonour?*

*A.*—A bill is said to be “noted” when, on its being presented for acceptance or for payment, as the case may be, by a notary public, it is dishonoured, and the notary thereupon marks on the bill the fact of his having presented it. His marking consists of the date of presentation, his fee, a mark referring to the record made in his register, and his initials. He also attaches to the bill a slip on which he states the reason given to him by the drawee for its dishonour.

As regards inland bills, it is not necessary to note them in order to preserve recourse against the drawers and endorsers thereof. They may, however, be noted if the holders think fit, and the minute of the notary accompanying a returned bill is satisfactory assurance of due presentment, and non-acceptance or non-payment, to the various parties by whom the amount thereof may have successively to be paid.

When a foreign bill has been dishonoured, it must be protested in order to preserve recourse against the foreign drawer and endorsers. To ensure the due protest of the bill, it must be noted for non-acceptance or non-payment on the day of its dishonour; the protest may then be taken out at any time thereafter. The formal document embodying the protest is accepted as evidence in a foreign court of the dishonour of the bill referred to therein, in an action against the foreign drawer and endorsers, if duly legalised.

A bill must be noted on the day of its dishonour. This rule is subject to two exceptions:—

(1) When a bill is presented for payment through the post office and returned by post dishonoured, it may be protested at the place to which it is returned, and on the day of its return, if received during

business hours, and if not received during business hours, then not later than the next business day.

(2) Delay in noting or protesting a bill is excused when the delay is caused by circumstances beyond the control of the holder and not imputable to his default, misconduct, or negligence.

*Q. 26.—Describe “payment for honour,” and the position of the parties concerned.*

*A.*—When a bill has been dishonoured by the person on whom it is drawn, and is then paid by a third party intervening on behalf of one of the other parties to the bill, or on behalf of the person on whose behalf the bill was drawn, it is said to have been paid for the honour of that party, and the payment is technically called “payment for honour.” Before recourse can be had to a person willing to pay for honour, the bill must be protested for non-payment against the drawee. The payment for honour must be attested by a notarial act of honour founded on a declaration, made by the person paying, of his intention to pay the bill for honour, and also stating for whose honour he pays it.

When a bill has been paid for honour, all parties subsequent to the party on whose behalf the payment was made are discharged from liability, and the payer for honour succeeds to both the rights and duties of the holder as regards the party for whose honour he paid, and all parties liable to such party.

If the holder of a dishonoured bill refuses to receive payment for honour, he loses his right of recourse against any party who would have been discharged by such payment.

*Q. 27.—Is a banker justified in paying the following :—*

(a) *Cheque previously refused as “post dated.”*

(b) *Inland bill of earlier date than the impressed stamp thereon.*

*Give reasons for your reply.*

A.—(a) Yes ; a post-dated cheque is not invalid, and, directly the day, the date of which it bears, is reached, it becomes payable on demand.

(b) Yes ; a bill is not invalid by reason only that it is ante-dated. (Bills of Exchange Act, sec. 13 (2) ).

Q. 28.—*Is a banker justified in paying his customer's acceptances without having received from him special advice to do so ?*

A.—Yes ; assuming that the acceptances have been accepted payable at the banker's office. By so doing, the acceptor is held to authorise the banker to pay the bill when presented at maturity.

It may, however, be mentioned that a banker is under no obligation to pay a bill accepted by his customer payable at his bank, unless he has expressly or impliedly agreed to do so. It is quite possible, however, that at the present day, it would be held that the banker impliedly agrees so to do, seeing that it is the general practice of banks to pay domiciled bills.

Q. 29.—*What are the duties and responsibilities of a banker with whom valuables have been deposited for safe custody ?*

Q. 30.—*What responsibility does a banker assume for the custody of bonds or bearer securities :*

(a) *When left with him in a closed box.*

(b) *When left with instructions to collect dividends as they become due.*

(c) *When left with instructions to sell through a broker.*

A.—(a) When a banker receives his customer's securities for safe custody, he makes himself responsible for the exercise of that care which a reasonably prudent man would take of his own property of a like description. (*Giblin v. McMullin*.) He engages to re-deliver the securities to his customer on demand, and will be responsible to his customer if he is unable to do so owing to gross neglect on his part. Some modern critics hold that a banker in such cases is not a gratuitous bailee, but a bailee for reward, and as such must take every possible means to protect the property placed with him, being liable for the loss resulting from his omission to do so. Possibly, there is little hardship, if the banker were held to be a bailee for reward, seeing that most banks have safes and strong rooms for their own requirements, and if a banker having such did not use them, he would be guilty of that want of care which would be expected of any prudent man.

(b) In receiving his customer's bearer securities with instructions to collect the dividends as they became due, a banker places himself in the position of a mandatary, and as such must exercise all reasonable diligence and employ all reasonable ability in the execution of the service undertaken and on account of which the bonds were entrusted to him. Being possessed presumably of exceptional skill and aptitude in the management of such matters, he is bound to exercise it, and such special capacity will be presumed, seeing that the gratuitous employment is in regard to a matter which is specially within the scope of his business as a banker. He will thus be responsible to his customer if the bonds are lost through his omission to exercise the care which a prudent banker gives to such a matter.

(c) In receiving securities from his customer for the purpose of sale, and so acting as his customers' agent, he assumes the responsibility attaching to

their custody pending sale, and will be liable to his customer, if, through any negligence on his part, they are lost while in his possession.

*Q. 31.—What is required to render the following securities available to a banker as cover against advances made to a customer :—*

*Foreign and Colonial Bonds to bearer.*

*American Railway Shares.*

*Stocks and Shares of Railway and other Companies.*

*Registered or Inscribed Stocks of English or Colonial Governments or Corporations ?*

*A.*—Foreign and Colonial bonds to bearer are negotiable instruments, and nothing has to be done to render them available as cover for advances.

American railway share certificates are not negotiable instruments, but provided the form of transfer on the back thereof has been duly signed by the registered owner of the shares, they are transferable by delivery, and nothing further is required to render them available as cover.

As regards the stocks and shares of railway and other companies, the relative certificate should be handed to the banker accompanied by a duly executed transfer deed in favour of the banker (or his nominees). By completing the deed and having the shares registered in his name (or in those of his nominees), the banker acquires the power of realising the security, if such becomes necessary. He may, however, merely receive the certificate accompanied by a letter from the customer engaging to transfer the shares when called upon so to do, and advise the company that he holds the certificate and has a lien over the stock or shares represented thereby, but if the customer is subsequently unwilling to perform his promise, the banker would have to ask for the assistance of the Courts to compel him.

In the case of registered or inscribed stocks of English or Colonial governments or corporations, where a certificate is issued to the registered owner of the stock, and the stock is transferable by deed, the same course would be followed as in the case of railway and other companies' stock or shares. Where no certificate is issued, and transfers are effected in books kept by the agents for the stock, it is essential that the stock be transferred into the name of the banker or of his nominees. This necessitates the attendance of the owner of the stock, or his attorney, at the bank or agents where the transfer books of the stock are kept, before the transfer can be completed.

In all cases it is assumed that the various securities have been duly pledged to the banker.

*Q. 32.—Share certificates accompanied by blank transfers are handed to a banker as security for advances. State your opinion as to the nature and effect of these transfers, and draw any distinction you can between (1) transfers by deed, and (2) transfers by instruments in writing other than deeds.*

*A.*—By receiving a share certificate, whether accompanied or not by a transfer deed in blank, as security for an advance, a banker obtains an equitable charge over the shares represented by the certificate. When he receives a transfer deed in blank, and the shares can only be transferred by deed, the banker cannot turn his equitable charge into a legal one by filling up the blanks in the deed and having it duly registered by the company. For a transfer executed in blank is not a deed, and it does not become available as a deed by being filled up, unless it is re-executed by the transferor. The banker in such cases still has only equitable rights against other equitable claimants, if any. If there is another equitable claimant who is

prior to the banker in point of time, then the banker will be postponed to him. Where the mode of transfer is by an instrument other than a deed, then the banker by completing the document in favour of himself and getting himself registered as the owner, will, by obtaining the legal title, override the equitable rights of other claimants, even though prior to himself in point of time.

*Q. 33.—What is meant by attaching a banking balance, and how must it be effected?*

*A.*—By attaching a banking balance is meant making such balance available to satisfy a debt due by the person at whose credit the balance is, to the person to whom he owes money under an unsatisfied judgment. The attachment is made by means of a garnishee order issued under Order 45, Rule I, of the Rules of the Supreme Court, 1883. This rule is as follows:—

“The Court or judge may, upon the *ex-parte* application of any person who has obtained a judgment or order for the recovery or payment of money, either before or after any oral examination of the debtor liable under such judgment or order, and upon affidavit by himself or his solicitor stating that judgment has been recovered, or the order made, and that it is still unsatisfied, and to what amount, and that any other person is indebted to such debtor and is within the jurisdiction, order that all debts owing or accruing from such third person (the garnishee) to such debtor shall be attached to answer the judgment or order: and by the same or any subsequent order it may be ordered that the garnishee shall appear before the Court, or a judge, or an officer of the Court, as such Court or judge shall appoint, to show cause why he should not pay to the person who has obtained such judgment or

“order the debt due from him to such debtor, or so much thereof as may be sufficient to satisfy the judgment or order.”

The serving of the garnishee order attaches all moneys in the banker's hands belonging to the customer, and no cause of action will be given his customer on the refusal by him to pay cheques drawn against the balance in his hands over and above the judgment debt. (*Rogers v. Whiteley*, 23 Q.B.D., 236.)

*Q. 34.—What is a bill of lading, and what points should be specially regarded in taking bills of lading as security for advances?*

*A.*—A bill of lading has been defined as “a writing signed on behalf of the owner of the ship in which goods are embarked acknowledging the receipt of the goods and undertaking to deliver them at the end of the voyage, subject to such conditions as may be mentioned in the bill of lading.”

Bills of lading are usually issued in “sets”; hence, unless the person to whom a bill of lading is offered as security can immediately obtain the control of the goods represented, he should insist on all the copies thereof being handed him before he makes the advance asked for thereagainst. In addition, he must see that the bills of lading are duly endorsed by the person in whose favour they are made out. He should also be satisfied that the person handing him the bill of lading as security is entitled to deal with it in this way. He should also obtain possession of the policies of insurance covering the risk of loss in transit.

*Q. 35.—Define “par of exchange.” When and how can the “par” be determined, and what are the two*

*chief causes of the variations from par to be observed in the daily quotations?*

*Quote the pars of exchange between—*

- (a) *London and Paris.*
- (b) *London and Berlin.*
- (c) *London and New York.*

*A.*—The term “par of exchange” is used when a comparison is being made between the currency units of two countries using the same standard, and means the fixed intrinsic value of the currency unit of the one country, expressed in terms of the currency unit of the other country.

It can be determined only between the currency units of those countries which use the same metal for their standard coins. There can hence be no par of exchange between two countries, one of which uses gold for its standard coins, and the other silver.

It is determined by comparing the amount of pure metal in the units of the particular countries. Take, for instance, the case of Great Britain and the United States of America, their standard coins being the sovereign and the gold dollar respectively.

In a sovereign there are 123.274 grains standard gold (*i.e.*, gold  $\frac{11}{12}$  fine). Hence the amount of pure gold in a sovereign is 112.997 grains.

In a \$10 piece there are 258 grains standard gold (gold  $\frac{9}{10}$  fine). Hence the amount of pure gold in \$1 is 23.22 grains.

Therefore the number of dollars which will contain the same amount of pure gold as a sovereign is

$$\frac{112.997}{23.22} = 4.866.$$

The two chief causes of the variations from par are:—

The supply of and the demand for bills for the adjustment of indebtedness arising from international trade. If, at any time, the supply of bills exceeds the demand for bills, sellers must accept less for their

bills ; if, on the other hand, the demand is great, they will enjoy a corresponding advantage.

Apart from trade requirements, fluctuations are caused by changes in the relative value of money in the two countries.

The par of exchange between London and Paris is, 25.2215 francs = £1.

The par of exchange between London and Berlin is, 20.43 marks = £1.

The par of exchange between London and New York, as shown above, is \$4.86 $\frac{2}{3}$  = £1.

*Q. 36.—What is the meaning of the term “gold points,” and quote those between London and Paris and London and Berlin?*

*Q. 37.—What do you understand by the term “bullion points”?*

*A.*—By the term “gold points” or “bullion points” we mean the rates of exchange which are produced by buying gold in one country and selling it in another. They are the points at which it would be as cheap for a person in one country who has to discharge an indebtedness to a creditor in another country, to do so by sending gold as by buying and remitting bills. As regards any particular country, there will be a point at which gold will be likely to be exported, and a point at which gold will be likely to be imported. Given the Mint par between the currency units of two countries and the cost of sending gold, the gold points will be found by deducting the latter from the former for the outward gold point and adding it thereto for the inward gold point. These gold points fix the theoretic limits to which the price of sight bills may rise or fall.

The Mint Par between London and Paris is 25.2215: it costs about 10 centimes per sovereign to send sovereigns from London to Paris ; hence the outward gold point is 25.12 and the inward gold point 25.32,

plus any premium which the Bank of France may put upon bars and foreign coin.

The Mint Par between London and Berlin is 20.43 : it costs 8 to 10 pfennige per sovereign to send sovereigns from London to Berlin ; hence the outward gold point is 20.34 and the inward gold point 20.51 to 20.53.

*Q. 38.—What is the effect upon the foreign exchanges of a country resulting from a rise or fall of the rate of interest there ?*

*Q. 39.—In what way does a rise or fall in the rate of interest affect the rates of exchange ?*

*A.*—If the rate of interest in any country rises or falls, the effect will be to cause the exchanges to move in favour of or against the country. The quotations for sight bills on London in the foreign markets will rise or fall accordingly. At the same time, the quotations for long bills will alter, the difference between the two rates widening or lessening according as to whether the rate of interest in the country has increased or decreased. For example, suppose that it is the rate of interest in London that has changed. If the rate has risen, then the sight exchange will move in favour of London, owing to a falling off in the market supply of remittances on London combined with a greater demand for bills on London for investment purposes : at the same time the difference between the sight rate and the long rate will increase. If the rate of interest has fallen, we should see the sight rate fall, the demand for drafts on London being decreased, and at the same time the difference between the sight rate and the long rate would lessen.

It must, however, be remembered that there may be circumstances which may prevent these movements jointly from following a change in interest. Demand may not be influenced at all, and the sight rate may

remain unchanged, only the long rate being altered. As Mr. G. Clare states in his "A.B.C. of the Foreign Exchanges," "There is no necessary connection whatever. The buying for investment is strong or weak according to the outlook of the money market at home and abroad, and according to the state of credit, etc. ; in a word, if bankers think the operation likely to turn out well, they buy freely, and the exchange goes up ; but if they think it likely to turn out badly, they leave it alone and the (sight) exchange remains unaffected."

*Q. 40.—Exchange London on Paris is quoted : Short, 25.20 : 3 months, 25.46. In what way does the rate of interest affect the difference in these quotations, and what rate is it that has to be taken into account ?*

*A.*—The difference between the quotations for bills drawn payable at sight or at a short currency and bills drawn at 3 months' sight, will depend upon the current rate of interest in the country in which the bills are payable. In the case given, the difference of .26 francs represents the interest on 25.20 francs for 3 months, plus allowance for risk and French stamps ; and hence the rate of interest ruling in Paris was about 4 per cent. per annum. The lower the ruling rate of interest, the smaller will be the difference between the short and the long rate : on the other hand, with an increase in the rate of interest, the difference between the two rates will become more pronounced.

*Q. 41.—Under what circumstances will the exchange rise or fall beyond the bullion point without causing any movement of the metal ?*

*A.*—Under ordinary circumstances and apart from any action which the Bank of France and the Reichsbank respectively may take to check the outflow of

bullion, the exchanges (sight) between any two countries fluctuate between the limits of bullion point. Persons who have to remit will, naturally, not pay more for drafts than it would cost them to remit gold, and those who have bills to sell will not be willing to accept less than would be obtained by sending their bills forward, and getting back the gold represented thereby.

There have, however, been occasions when sellers of bills have preferred to sell at rates much below bullion point rather than wait the time which it would take to get the gold. The instances on record in which the exchanges have fallen below specie point show how peculiar must be the monetary conditions which produce such a state of affairs.

The exchanges may so fall under the joint influence of a stringent money market and a favourable exchange, the latter due to an excess of exports. It was through these causes that the New York exchange fell in 1861 much below specie point. Owing to the excess of exports over imports, the supply of bills in New York on Europe was much in excess of the demand, and hence exchange was naturally forced down to specie point. The existence, however, of a stringent money market, aggravated by political uncertainty and the desire on the part of traders to have ample funds at their disposal, induced the holders of bills to sacrifice them at rates much below the incoming specie point.

The exchange may also fall below specie point owing to the fact that coined money is in short supply. It was due to this that the exchanges fell in Australia in 1852 and 1853 much below specie point. In those years, notwithstanding that there was an excess of imports over exports, which in ordinary times would enable holders of bills payable abroad to sell them at a premium, the price at which bills could be sold fell even below the incoming specie point. Holders had, in

fact, to submit to a loss in order to obtain a supply of the circulating medium of the country so as to provide for their commercial engagements.

*Q. 42.—Give some account of the circumstances that led to the appointment of the Bullion Committee of 1810.*

*A.*—In 1797 the Bank Restriction Act was passed. Under its terms the Bank of England was prohibited from making payments in cash except for sums under twenty shillings. Any person, however, who had lodged cash in the Bank for £500 at least, might be repaid in cash to the extent of three-fourths of the sum deposited by him. The Bank could not be sued for payment of any of its notes for which it was willing to give other notes.

The Bank of England was thus able to issue inconvertible paper money, a power which appears to have been exercised at first with prudence. In 1800, however, gold had to be exported in large quantities in payment of purchases of foreign corn, the English harvests of 1799 and 1800 having been failures. Side by side with the outflow of gold, there was an increase in the note issues of the Bank of England; and while in 1799 the notes in circulation amounted to almost £13,000,000, with a cash reserve of about £7,500,000 at the end of February, 1801, they had risen to over £16,000,000, while the cash reserve had fallen to £4,600,000. At this time the market price of gold was £4 6s. per ounce, as compared with the Mint price of £3 17s. 10½*d.* The increased paper issues of the Bank of England and of the country banks were, in fact, driving gold out of circulation, and the market quotation for that metal had no longer any relation to its Mint price, but was in terms of a paper currency, the issues of which were in excess of the country's requirements. During the next few years there was

a gradual decline in the price, and between 1803 and 1808 it stood at about £4 per ounce. In 1809, however, it rose again, and stood at £4 12s., while in 1810 it touched £4 13s. At the end of February, 1810, the note issues of the Bank of England were £21,019,600, while the cash reserve had fallen to £3,501,410. The situation was so serious that the House of Commons appointed a Committee to enquire into the causes of the high price of bullion and the unfavourable state of the foreign exchanges. Critics had already expressed the opinion that the fall in the exchanges was merely the effect of the excessive paper issues at home. The Committee met, and after examining several witnesses, issued its celebrated Report. In it, after recording the price of gold bullion for the years 1806 to 1810, and the unfavourable exchanges with the Continent, the Committee controverted the view expressed by several witnesses who had appeared before it "that there can be no possible excess in the issue of Bank of England paper, so long as the advances in which it is issued are made upon the principles which guide the conduct of the directors—that is, so long as the discount of mercantile bills is confined to paper of undoubted solidity arising out of real transactions and payable at short and fixed periods," and held that it was a doctrine wholly erroneous in principle and pregnant with dangerous consequences in practice to limit paper money merely by discount requirements, at a time when the Bank of England was restrained from paying in specie.

The conclusions arrived at by the Committee were that the rise in the price of gold and the fall in the exchanges were due to the existence of an excessive quantity of circulating medium, not exportable to other countries, or not convertible into coin which was exportable; that the inconvertible paper had been depreciated, and the depreciation was measured by the

difference between the Mint price and the market price of gold ; that a diminution of the Bank of England issues would restore the exchanges and equalise the Mint and market price of gold ; and that the Bank of England ought to regulate its issues during the suspension of cash payments by the state of the exchanges and the price of gold bullion. The Committee recommended that there should be a resumption of cash payments as early as possible, leaving the mode of gradually effecting such to the discretion of the directors of the Bank of England.

The Report was not taken into consideration by the House of Commons until 1811, and when it was dealt with, the views expressed therein were, after much discussion, rejected, and counter resolutions proposed by Mr. Vansittart (afterwards Lord Bexley) adopted. It was declared by these resolutions that the value of bank notes was not depreciated, but that the value of gold was enhanced, and that the political and commercial relations of Great Britain with foreign countries were sufficient to account for the unfavourable state of the foreign exchanges and the high price of bullion.

*Q. 43.—Give some account of the crisis of 1847, and of that of 1867, and mention any points of difference between them.*

*A.*—Two causes contributed to the crisis of 1847, excessive speculation in railway undertakings, and failure of the English harvests.

The crisis was preceded by a considerable period of speculative activity, which was fostered by a low rate for money and helped by the removal by the Bank Act of 1844 of all responsibility from the directors of the Bank for the regulation of the note issue, now considered as automatic. About this time, considerable reductions were made in the interest on

Government loans, and the public turned to other investments of a more remunerative character. In particular, they were attracted to the many railway undertakings which were being formed. In 1844, Parliament had authorised railway companies to raise capital to the extent of £17,870,000. In the following year, the amount authorised was £60,824,000, and in 1846 it was £132,000,000. The estimated outlays on labour and material during these years were £4,480,000, £11,280,000, and £29,188,000 respectively, while for the first six months of 1847 it reached over £20,000,000. Capital was diverted from its ordinary channels and sunk in works of permanent utility, but of slow return. The mercantile community became involved in the widespread speculation which was taking place in the shares of railway companies, and money which should have been accumulating towards meeting trading acceptances was used to buy shares. At first, no doubt, things went well; the shares in new railways quickly rose to large premiums, while those of the older companies appreciated greatly in value. But the time came when the shares could not be sold except at a ruinous loss. Early in 1847 the position was becoming serious: calls to a large amount were becoming due daily, while there were no funds forthcoming to meet them, except by the withdrawal of capital from other pursuits. Possibly the railway mania alone would not have caused the crisis of 1844, but it was accompanied by other events, sufficient of themselves to account for it. The potato crop in Ireland had failed both in 1845 and in 1846, the English harvest of 1846 was a poor one, and there had been a short cotton crop in America. The failure of the home supply of corn naturally raised the price of that commodity, speculation in corn was engaged in, while the heavy importation thereof made prices fall as quickly as they had risen. The consequence was that many firms in the corn trade were ruined.

The short cotton crop in the United States made raw material dear, depressing the manufacturing districts of England and depriving a great portion of the artisans of employment.

The Bank of England rate stood at 3 per cent. at the beginning of 1847. With the view of checking the outflow of gold made necessary by the great purchases of wheat from abroad, the rate was raised on the 14th January to  $3\frac{1}{2}$  per cent. and again on 21st January to 4 per cent. But the outflow continued, and on the 8th April, Bank rate was raised to 5 per cent. At this time the gold in the Issue Department had fallen to £9,867,000, as compared with £15,163,000 at the end of the previous December. On the 5th August, the rate was raised to  $5\frac{1}{2}$  per cent. During September, Messrs. Sanderson and Co., bill brokers, failed. On the 1st of October the directors of the Bank of England announced that no advances would be made against public securities. This caused a panic on the Stock Exchange. On the 18th, the Royal Bank of Liverpool suspended payment, and within five days other important banking failures were announced. A total suspension of all business and of all payments seemed imminent. The reserve of the Banking Department, which stood at the beginning of October at £3,409,000, was reduced to £1,176,000 on the 23rd of that month. The anxiety and alarm which prevailed were causing a general hoarding of coin and bank notes, and it seemed likely that the Banking Department of the Bank of England would have to suspend payment.

At last, on the 23rd October, the Government authorised the suspension of the Bank Act, and in so doing recommended the directors of the Bank to enlarge in the emergency the amount of their discounts and advances upon approved security, a minimum charge of 8 per cent. to be made for any accommodation granted. The publication of the letter from

the Chancellor of the Exchequer to the directors of the Bank had a magical effect. The panic was allayed, and confidence was gradually restored.

The crisis of 1866 is memorable in that it was precipitated by the failure of the great discount house of Overend, Gurney and Co. The crisis arose chiefly from a mistaken estimate of the advantages of the Limited Liability Act passed in 1862, which led to the too rapid formation of financial companies. Even in 1863, the number of new companies formed and being formed was tending to excite over-speculation, and there was a general feeling of uneasiness. During 1863 and 1864, the Bank rate was changed many times. In one week in 1863 it rose from 5 to 6 per cent., and then to 7 per cent.

In May, 1864, it was for a second time raised twice in one week, from 7 per cent. to 8 per cent., and then to 9 per cent. Many banking and discount companies had been formed since 1862, and in the autumn of 1864 the long-dated acceptances of these financial concerns began to press upon the market, laying the foundation of the crisis.

The civil war in America caused a shortage in the cotton crop, but supplies were obtained from Egypt and India ; they, however, caused a drain of gold in order to pay for them. At the same time, it must be remembered that the war occasioned a demand for English goods up to a certain point, compensating for the lack of employment in Lancashire.

During 1865, after being as low as 3 per cent., the Bank rate rose to 4 per cent. in August, to  $4\frac{1}{2}$  per cent. on the 28th September, and, by the 7th October, it had risen to 7 per cent. Early in 1866 it was raised to 8 per cent. The crisis was at hand. During February, some large firms engaged in railway contracts suspended payment. Stocks and shares became unrealisable, suspicion prevailed everywhere,

and all kinds of securities were thrown upon the market. This was the inevitable reaction from the speculative mania and inflated commercial transactions of the previous year, which had launched upon the world so many shallow and fallacious schemes.

In April, the ordinary stock of a railway company was offered at an apparently ruinous discount. It became known that several railway contractors were unable to obtain a continuance of the advances on which their solvency depended. In the same month, the Joint Stock Discount Company failed, followed in March by Barned's Bank at Liverpool. The result was universal panic. On the 3rd of May, Bank rate was raised to 7 per cent., on the 8th to 8 per cent., and on the 9th to 9 per cent. On the 10th, Messrs. Overend, Gurney and Co. suspended payment with liabilities amounting to over £19,000,000. The firm stood next to the Bank of England, and its name and influence extended to all parts of the civilised world. Nevertheless, for years the firm had been engaging and embarking in enterprises of a character so unsound in themselves, and so dangerous from the class of people connected with them, as should have deterred any banker from having anything to do with them. The failure was known to the general public on the following morning, Friday, 11th May, "Black Friday." Lombard Street was filled with a frenzied mob, and the wildest agitation ever known in the City prevailed. No single bankruptcy, perhaps, has ever caused so great a shock to credit.

As had been done in the crises of 1847 and 1857, the Government authorised the suspension of the Bank Act. The action of the Government became known on the Saturday, and on the same day the directors of the Bank raised the rate of discount to 10 per cent. Although the action of the Government brought relief, the crisis was not over, and in a few days there was a revival of the panic. Large com-

mercial failures began to be announced, banks which were known to hold the acceptances of the bankrupt firms were subjected to "runs," and among others the Bank of London, the Consolidated, and the Agra and Masterman's Bank closed their doors. The last two banks subsequently resumed business.

The following points of difference may be mentioned between the crisis of 1847 and that of 1866 :—

The crisis of 1847 was a period of mercantile distress, but the vital consideration of banking credit was not involved in it as was the case in 1866. In other words, the crisis of 1847 was an industrial crisis, while that of 1866 was a banking crisis.

In 1847 the course of affairs was comparatively slow and measured, whereas in 1866 the shock arrived with an intense rapidity, and the opportunity for deliberation narrowed in proportion.

In 1866 the reserve of the Bank of England suffered a diminution without precedent relatively to the time in which it was brought about.

In 1847 the greatest depression took place in the price of commodities, while in 1866 the greatest fall was in the quotations for the shares of banking and other companies.

*Q. 44.—Give some account of the crisis of 1857, and the causes that led thereto.*

*A.*—The crisis of 1857 took place in the autumn of that year. It grew out of the derangement of the American trade, supervening upon some previous inconveniences created by the Indian Mutiny, the shipment of bullion, the disturbance of the Indian trade, and to a certain extent speculation on the Continent. Three influences had been at work during the preceding ten years. There had been an unprecedented extension of foreign trade—the exports had doubled in ten years. There had been an excessive

importation of the precious metals, due to the discovery of gold in Australia and California. These two causes produced a third, a monstrous development of the banking system as an instrument for the distribution of capital. The deposits in the joint-stock banks of London alone rose from £8,800,000 in 1847 to £43,000,000 in 1857. Of the deposits at the disposal of the London bankers borrowers took the greatest advantage, aided by the recklessness with which advances were made by the lenders themselves. Thus, in the words of a contemporary writer, "an unwieldy edifice of borrowed capital was erected ready to topple down on the first shock given to that confidence which was, in fact, its sole foundation." The shock came from America. Notwithstanding the great abuse of credit, and the overtrading consequent thereon, it was held at the time by many that, but for the derangement of the American trade, there would not have been any crisis in England. In the United States, even more than in this country, the credit system had become extended; over-speculation in every direction was indulged in, and, aided by the willingness of European producers to sell their goods on credit, a tremendous accumulation of goods in the warehouses was made possible. Gradually, however, it became more and more difficult to sell the stocks; bills accepted against the goods could not be met and had to be renewed; the banks began to curtail their discounts and to call in advances. All kinds of property fell heavily in value, particularly the shares of the railway undertakings. Not only mercantile houses but the banks themselves were forced to suspend payment; the first firm of importance to fail was the Ohio Life and Trust Company, early in September, and before the end of that month no less than 150 banks in Pennsylvania, Maryland, Virginia and Rhode Island had suspended specie payments. By the middle of October, 18 of the banks of New

York had to stop payment as well. The failure of the American firms affected the position of English houses connected with them. London became alarmed at the position, and the most serious apprehensions were excited. Directly the gravity of the position was recognised, the Bank of England raised its discount rate from  $5\frac{1}{2}$  to 6 per cent. The demand for accommodation increased nevertheless; on October 12th the rate was raised to 7 per cent., and a week later to 8 per cent. Glasgow was intimately connected with America in trade, and several large firms in that city were forced to fail. The feeling was intensified when it became known that as the result of certain of the failures the Western Bank of Scotland was in difficulties. The first suspension of magnitude, however, was that of the Liverpool Borough Bank, which closed its doors on October 27th, its failure being due, as were those of the Western Bank of Scotland and the City of Glasgow Bank which followed it, to improvident advances. The early days of November witnessed the failures of several of the leading American houses here, notably that of the great firm of Dennistoun, Cross & Co., on the 7th of the month. Bank rate, which had been raised to 9 per cent. on the 4th of the month, was now increased to 10 per cent., and on the same day, the 9th, the Western Bank of Scotland suspended payment, followed two days later by the City of Glasgow Bank, and Sanderson, Sandeman & Co., bill brokers, of London. Consequent on the failures in Scotland, and a renewed discredit in Ireland, the Bank of England had to meet a drain of gold, sudden and irresistible, with the result that on the 11th of November the reserve of gold had fallen to £1,462,000, and the bullion in the Issue Department to £7,174,000. The public became alarmed; large deposits accumulated in the Bank of England; money dealers having vast sums lent to them upon call were themselves

obliged to resort to the Bank for increased supplies, and for some days nearly the whole of the requirements of commerce were thrown upon the Bank (*vide* the Report of the Select Committee of the House of Commons on the crisis). Under these appalling circumstances the Government intervened and addressed a letter to the Directors of the Bank of England, in which they informed them that "if they should be unable in the present emergency to meet the demands for discount and advances upon approved securities without exceeding the limits of their circulation prescribed by the Act of 1844, the Government will be prepared to propose to Parliament, upon its meeting, a Bill of Indemnity for any excess so issued."

But for the suspension of the Act the Bank of England must have suspended payment, its reserve having fallen to £580,751, while the bankers' balances alone amounted to £5,458,000. The panic was allayed by the action of the Government. The Issue Department issued to the Banking Department £2,000,000 of notes in excess of the statutable limit, but of this amount the Banking Department issued to the public only £928,000, and even this sum had been returned by the 1st of December. Two more banks failed during November, the Wolverhampton and Staffordshire Bank and the Northumberland and Durham Bank, and in December several firms connected with the Baltic trade stopped payment. On December 24th the Bank of England was able to reduce the rate to 8 per cent., and by the 13th of February, 1858, the rate had been reduced to 3 per cent. The list of failures was not however complete, for during the early months of 1858 some important houses closed their doors, and it was not until the end of that year that there came a termination of the distress and disaster occasioned by the events of the crisis. The losses occasioned by the crisis were estimated at £80,000,000.

*Q. 45.—Give some account of the banking crisis of 1878, naming the three chief banks that failed therein.*

*A.*—The opening event in the crisis of 1878 was the failure of the City of Glasgow Bank on the 2nd of October of that year. There is no doubt that in certain well-informed circles the suspension of the bank was not unexpected, but it took the general public completely by surprise. The acceptances of the City of Glasgow Bank had been in great supply on the London market, and bill brokers would discount them only at one-quarter to one-half per cent. over the current rates for bank bills generally. The distrust increased until the Eastern banks at last instructed their branches in India, China, etc., to discontinue buying bills drawn upon the City of Glasgow Bank. Their action brought matters to a head, and with its credit gone the bank found its days numbered. Even before the actual suspension there were rumours that false balance-sheets, false gold returns, etc., had been issued for some time previously. At first the other Scotch banks refused to believe the rumours, and it was not until the City of Glasgow Bank directors appealed to them for assistance that they commenced to think that the rumours might indeed be true.

Directly they had been appealed to for assistance, the banks called in an accountant to examine and report upon the position. A very slight examination enabled him to inform them that the bank's affairs were in a hopeless state, and to recommend that no help be given. The bank thereupon stopped payment on the 2nd of October. The other Scotch banks immediately announced that they would accept its notes as usual; they also made advances in urgent cases on the security of the amounts due by the bank to individual depositors.

Under the instructions of the directors of the bank,

a balance sheet and report was drawn up ; this document was in the hands of shareholders on the 19th of October, and these unfortunate individuals then knew the actual position. The examination of the books had disclosed a terrible state of affairs, and showed mismanagement so gross and criminal as to be almost incredible. Bad debts due to the extent of over £7,000,000 had been treated as available assets, and the value of securities held against them had been estimated at sums stated by the debtors themselves. The bank's books had been falsified for several years. It had not even the gold in its tills to meet its notes by £200,000. The total loss, including capital (£1,000,000) was over £5,000,000. The shareholders decided on voluntary liquidation, and after the list of shareholders was settled, a call of £500 per share of £100 was made—the bank being one of unlimited liability—and ruin overcame the majority of the shareholders. The call realised £2,409,066. So great was the distress that a fund was subscribed, chiefly in Scotland, for the relief of ruined shareholders. A second call of £2,250 per share was made later, and the sum of £3,305,452 obtained thereby. In a very large number of cases, shareholders were altogether unable to meet this, or even the preceding call, and the liquidators had to accept compromises in numerous instances. Almost the entire body of the shareholders was reduced to absolute poverty, all classes of the community being represented. The occurrence was nothing short of a national calamity to Scotland. In the end, the creditors were paid practically 20s. in the £, within one year and a quarter of the suspension. In view of the report issued by the investigators, warrants were issued for the apprehension of the directors and manager for fraud. They were tried early in the following year, and sentenced to terms of imprisonment ranging from eight to eighteen months. Unfortunately, the Caledonian Bank held £400 stock

of the City of Glasgow Bank as security for an advance made to one of its customers, and—as the liability of shareholders in the City Bank was unlimited—was thus liable for calls to an extent which could not be estimated. This fact became known, and its shareholders naturally took alarm, transferring their holdings to men of straw. The liquidators of the City Bank thereupon took steps to prevent this continuing by presenting a petition for the winding up of the Caledonian Bank. The Caledonian Bank thereupon suspended payment, re-opening after the withdrawal of the petition, consequent on its directors having amended the constitution of the Bank so as to prevent the transfer of shares without their approval.

But the crisis did not end with the failure of the City of Glasgow Bank. The lending of money on unrealisable security, the nursing of the accounts of particular firms, were not confined to one institution. On the 26th of November, Messrs. J. & J. Fenton, bankers, of Rochdale, failed, with liabilities of about £500,000—the firm finding itself unable to meet a run, its assets being unrealisable. Prior to their failure, there had been rumours that the West of England Bank was in difficulties, and on the 9th of December it failed with liabilities of about £5,000,000; its directors also had lent heavily to a few firms against the pledge of securities which were unrealisable. On the 4th of January, 1879, Messrs. Tweedy, Williams & Co., of Truro, suspended with liabilities of about £650,000—their failure was, however, due to misfortune, the death of a partner making depositors fear that his money would be withdrawn from the business. Unfortunately, the failure of Messrs. Tweedy caused a run upon the bank of Messrs. Vivian, Grylls, Kendal & Co., of Helston, and it had to suspend payment. The crisis of 1878–1879 is considered to have ended with the failure of Messrs. Vivian.

The failure of the City of Glasgow Bank called attention to the serious risks run by shareholders in banks of unlimited liability. The result of the agitation consequent thereon was the passing of the Companies Act of 1879, under which any company registered, either before or after the passing of the Act, as an unlimited company, may register as a limited company. The same Act also permits a company already registered as limited to declare by a special resolution that any portion of its capital which has not been already called up shall not be called up except in the event of and for the purposes of the company being wound up.

*Q. 46.—Give some account of the crisis of 1890, and the steps then taken to avoid panic.*

*A.*—The crisis of 1890 owed its origin to the speculative activity which had existed during the two previous years. It culminated in the virtual suspension of the great house of Baring Brothers and Co., and has for this reason been called the "Baring crisis." During the two preceding years, trade had been expanding in every direction, and all the industries of the country were flourishing. The surplus wealth of the nation was eagerly invested in fresh enterprises, many of which were more or less speculative in character. In particular, investors subscribed to undertakings connected with the Argentine Republic. In the placing of these latter, most of which were guaranteed, directly or indirectly, by the Argentine Government, Messrs. Baring Brothers took an active part. Loans issued under the ægis of so great a firm were at first eagerly taken up by the public: even though cautious investors might think that the South American States were becoming too frequent borrowers, no one imagined that Messrs. Baring could become involved through

their connection with any of the borrowing States. But the unexpected happened. The support given at first to the loans issued by the firm was forthcoming no longer, and it found itself committed to large undertakings towards which the public subscribed little or nothing. Early in the year 1890, the situation in the Argentine was causing anxiety to many. The directors of the Bank of England shared this anxiety, but were unable to make the Bank rate—6 per cent.—effective, owing to the competition of the open market. The result was that they had to allow the rate to fall to 3 per cent. In June, however, it was raised to 4 per cent., and on the 31st July to 5 per cent. The rate was lowered to 4 per cent. on the 21st August, but again raised to 5 per cent. on the 25th September. During the autumn trouble arose in the Argentine, and the credit of that country was hopelessly shaken. Side by side with the trouble in the Argentine there was a financial panic in New York. September witnessed a growing and undefined apprehension. The position of many firms was questioned, chiefly of those interested in Argentine securities. So far as Messrs. Baring were concerned, the situation was made worse by the withdrawal from them of balances held on account of the Russian Government.

The first warning of the subsequent crisis was given by the sudden raising of the Bank rate on a day other than that on which changes in it are usually made. On Thursday, the 6th November, the directors of the Bank of England met, but made no alteration in the official minimum. Yet, on the day following, they suddenly raised the rate to 6 per cent. This caused a temporary excitement, which was slightly reduced on the Saturday, only to be renewed on the following Monday. The Bank of England was already making provision for strengthening the gold reserve, and, as was found out later, had arranged to borrow £3,000,000 in gold from the Bank of France, and to purchase

£1,500,000 from the Russian Government. But the very borrowing of gold made the public feel that there was some disaster pending, and at last, late on Friday, the 14th November, it became known that Messrs. Baring Brothers & Co. had been compelled to place their position before the directors of the Bank of England, and ask its assistance. At the same time it was announced that the Bank of England had agreed to make advances to the firm in order to enable it to meet its liabilities as they matured, that the state of affairs had been communicated to an influential meeting of bankers and merchants held that afternoon at the Bank of England, and that a guarantee fund had been formed to relieve the Bank of England of the greater part of the responsibilities it had assumed in the interests of the financial world. The statement of Messrs. Baring's affairs submitted to the meeting showed that their liabilities amounted to £22,000,000, against which there were liquid assets immediately available of £15,000,000, and other assets, including the partners' capital, of about £11,000,000. It was due to the prompt action of the Bank of England and the support of the other banks and financial houses that the failure of the firm was averted, and what would have been a disastrous panic prevented.

Uncertainty prevailed on the Stock Exchange and the money market for some days, but the crisis may be said to have been over by the 19th of November. The guarantors were released from their liability early in 1895, some months before the expiration of the period for which the guarantee had been given.

It may be mentioned that, on the 24th November, the new company of Baring Brothers & Co., Limited, was registered with a capital of £1,000,000, and took over the business of the old firm.

How serious had been the crisis through which the City had passed may be gathered from the following

quotation from a speech made early in 1891 at Leeds by Lord Goschen (then Mr. Goschen):—

“No fertile imagination could exaggerate the gravity of the crisis through which we were called upon to pass in November and December. I doubt whether the public has thoroughly realised the extent of the danger to which what is called the Baring crisis exposed us all. The liabilities were so gigantic, the position of the house was so unique, that the interests at stake went far beyond individual fortunes, far beyond the fortunes of any class. We were on the brink of a crisis through which it might have been difficult for the soundest to pass unscathed, for the wealthiest to have escaped. It was a time when none who had liabilities and engagements could say how they could meet them, if a condition of things were to continue under which securities could not be realised, produce could not be sold, bills could not be discounted, under which there appeared to be an absence of cash sufficient to discharge the liabilities of the general public. What was at stake? You risked the deposition of London as a banking centre; you risked the supremacy of English credit, and the transfer of the business of this country to other European centres.”

*Q. 47.—Give a short account of the Australian banking crisis of 1893, and of the causes that led thereto.*

*A.*—For some years preceding 1893, a gigantic speculation had been taking place in land and buildings in and about the chief cities of Australia. The speculation had been made possible and been fostered by the over-supply of money obtained by the Australian banks in Great Britain on fixed deposit and sent to the Colonies to be employed there. The

supply being greatly in excess of any healthy demand that existed, the banks were only too eager to have these funds employed in some way or other so as to earn the interest which had to be paid thereon by them. Aided by the ease with which they found themselves able to borrow from the banks, and by the competition between the banks themselves to lend, speculators found scope for their activities in a land and building boom. The values of almost all properties in the Colonies were inflated to an extreme extent. The inevitable collapse of the boom came in due course, bringing with it the failure of most of the land finance companies and building societies that had come into existence during it. The losses to the community, especially to the working classes, by the failure of these concerns in 1891 and 1892, unhinged the public mind and contributed greatly to the distrust which produced the banking crisis. It was well known that some of the banks had lost heavily through having the accounts of these bubble concerns. The Mercantile Bank was the first to fail, in 1892, followed early in 1893 by the Federal Bank. Prior to the failure of the latter bank, the associated banks in Melbourne had publicly announced that they had agreed upon mutually satisfactory conditions on which they would extend their joint support to any one of their number requiring it. Their announcement had a salutary effect on the situation, but the Federal Bank was nevertheless allowed to suspend, and from this fact the public formed the opinion that the banks would only give help to the solvent ones who were able to pledge securities for the advances given, and that there was no charm in being one of the associated banks.

The position was further complicated by reason of the distrust which had arisen in England through the failures of the Mercantile Bank and the Federal Bank, both of which institutions had succeeded in obtaining

a large amount of money on fixed deposit from investors here. The Australian banks had between them obtained vast sums on fixed deposit, the amount at the end of 1892 being over £40,000,000. In some of the banks, the amount of British money on deposit exceeded the amount of colonial deposits. The failure of the two banks mentioned acted as a danger sign, and depositors began to consider the advisability of withdrawing their deposits as they fell due. The very men who had acted as agents (on commission) for the banks in England and Scotland now began to recommend the uplifting of the deposits as they matured. It was now that the banks found how difficult it was to realize the securities held by them, and unless they were able to do so, it would be impossible for them in their turn to meet the demands of their fixed deposit holders. Fears now began to be expressed as to the ability of the Commercial Bank of Australia to meet the situation. The withdrawals from it became heavy and continuous, and were accompanied by disgraceful speculations in its shares. The associated banks now declared that they would render financial assistance to each other on such terms and to such an extent as might seem justifiable to each of them, if and when the occasion arose. The position of the Commercial Bank of Australia had, however, become desperate. An attempt to provide a fund to help it came to nothing, and on March 4th, the bank suspended, simultaneously issuing a circular giving details as to a proposed scheme of reconstruction.

With the failure of the Commercial Bank, the crisis really began. Panic seized the shareholders, and spread to the depositors in the other banks. It was evident beyond question that the deposits in the younger banks would be demanded as they matured. Not only the public, but the bankers also were seized with panic, and the local institutions were compelled to have their re-construction schemes ready in case

of need. By the 17th of May, twelve other banks with Head Offices in New South Wales, Victoria, and Queensland, had followed the Commercial Bank, the course in some cases forced upon them by the reconstruction mania. The banks which failed were the following:—The English, Scottish, and Australian Chartered Bank, on April 12th; the Australian Joint Stock Bank, on April 20th; the London Chartered Bank of Australia, on April 25th; the Standard Bank of Australia, on April 28th; the National Bank of Australasia, on May 1st; the Colonial Bank of Australasia, on May 5th; the Bank of Victoria, on May 10th; the Queensland National Bank and the Bank of North Queensland, on May 15th; the Commercial Banking Company of Sydney and the City of Melbourne Bank, on May 16th; and the Royal Bank of Queensland, on May 17th.

One of the most unexpected failures was that of the National Bank of Australasia. Directly the Government of Victoria knew that the bank would not open on Monday, May 1st, a special Cabinet Council was held on Sunday, April 30th, the result of which was that a proclamation was issued, making May 1st to 5th, bank holidays. On the Monday morning, Melbourne was in a state of indescribable confusion and semi-panic. Three of the banks, however, ignored the proclamation, and their action tended to abate the excitement. Perhaps the suspension which was most unexpected in London, and the severest blow to Australian credit, was that of the Commercial Banking Company of Sydney. On the day that it suspended the Governor of New South Wales issued a proclamation making bank notes legal tender, the immediate effect of which was to allay the public mind. The proclamation was under the Legal Tender Act, passed only a few days previously.

All the banks which suspended in 1893 were reconstructed, and some of them are now as flourishing

as before their troubles ; but it was not for many years that the Australian banks as a whole could be said to have shaken off the consequences of the untoward events of 1893. Possibly, however, the time would not have been so long had not that year been followed by a long series of years of drought.

*Q. 48.—A B has advanced to his customer the sum of £500, repayment of which has previously been requested, and is now overdue. Write a letter stating a final date for repayment and giving notice that in default thereof the securities held will be sold.*

*A.—*

The Bank of London, Limited,  
101, Lombard Street, E.C.,

A. JONES, Esq.

April 5, 1904.

DEAR SIR,—In continuation of my letter of 1st ultimo, in which I asked you to make arrangements for the repayment, by the 1st instant at latest, of the loan of £500 made to you in September last, I much regret that, up to the present, my request has not been complied with.

I now write to inform you that, unless the amount due, together with interest, is repaid by the 1st proximo, I shall be reluctantly compelled to realise the securities held by the bank, and use the proceeds thereof in liquidation of your indebtedness. I trust, however, that you may be able to make such arrangements as will obviate the necessity of my so doing.

I am, Dear Sir,

Yours faithfully,

A. BROWN,

Manager.

*Q. 49.—A bill for £150, discounted for a customer, has been dishonoured. Write letters (a) to the customer*

apprising him, (b) to an endorser, and (c) to the drawer.

A.—

(a)

Bank of London,  
London, E.C.,

DEAR SIR,

March 31, 1905.

I beg to inform you that the under-mentioned bill, discounted for you on February 4, 1905, has been dishonoured at maturity and noted, viz. :—

£150, dated January 27, 1905, drawn by B. Thomas on S. Williams at two months' date, and accepted payable on the 30th inst. at the Bank of England.

I shall be obliged by your handing me the amount thereof with interest, and noting charges forthwith.

I am, Dear Sir,

Yours faithfully,

W. BROWN,

M. MASON, Esq.

Manager.

(b)

Bank of London,  
London, E.C.

DEAR SIR,

March 31, 1905.

I beg to inform you that the bill under-specified, held by the Bank of London, and on which you are an obligant, has been noted for non-payment, viz. :—

£150, drawn by B. Thomas on S. Williams, dated January 27, 1905, at two months' date and accepted by the latter and endorsed by you.

You are, therefore, requested to pay to the bank at this office the said bill, with interest and charges thereon.

I am, Dear Sir,

Yours faithfully,

W. BROWN,

E. LEONARD, Esq.

Manager.

(c)

Bank of London,  
London, E.C.,  
March 31, 1905.

DEAR SIR,

I beg to inform you that the bill under-specified, held by the Bank of London, and on which you are an obligant, has been noted for non-payment, viz. :—

£150, drawn by you upon Mr. S. Williams,  
dated January 27, 1905, at two months' date and  
duly accepted by him.

You are, therefore, requested to pay to the bank at this office the said bill, with interest and charges thereon.

I am, Dear Sir,

Yours faithfully,

W. BROWN,

B. THOMAS, Esq.

Manager.

*Q. 50.—Write a letter from the———Bank to J. H. & Co., Hamburg, acknowledging receipt of a letter of advice of their draft No. 243, dated 15th March, at 30 days' sight, for £500, to order of A. B. & Co., etc. State also that a draft of similar character for £550 has just been presented for acceptance, which is refused, awaiting instructions.*

A.—

The Bank of London, Limited,  
101, Lombard Street,  
London, E.C., 17th March, 1906.

Messrs. Julius Hirsch & Co.,  
Hamburg.

DEAR SIRS,

I beg to acknowledge receipt of your letter of 15th inst., and take due note that you have drawn upon us for £500. The draft has not yet been presented for acceptance, but, in the meantime, a

draft for £550 of the same tenour and date as that advised by you has been left for acceptance to-day. In the absence of any advice from you as to this latter bill, I am refusing acceptance thereof, pending your instructions, which you may possibly consider it desirable to give me by telegraph.

I am, Dear Sirs,

Yours faithfully,

A. JONES,

Manager.

*Q. 51.—A. B. & Co., of Antwerp, have drawn upon — Bank, London, a draft for £500, at 3 m/d instead of at 30 d/st. Write a letter from the bank acknowledging the receipt of advice, and pointing out that the draft in question differs from the terms of the credit opened and cannot be accepted.*

*A.—*

Bank of London,

London, E.C.,

April 2nd, 1906.

Messrs. A. B. & Co.,

Antwerp.

DEAR SIRs,

I am in receipt of your letter of 31st ult., and note contents. I have, however, to point out that the credit against which you have drawn stipulated that drafts are to be at a currency of 30 d/st. I shall therefore have no other course but to refuse acceptance of your draft p. £500 when presented.

I am, Dear Sirs,

Yours faithfully,

A. LOMBARD,

Manager.



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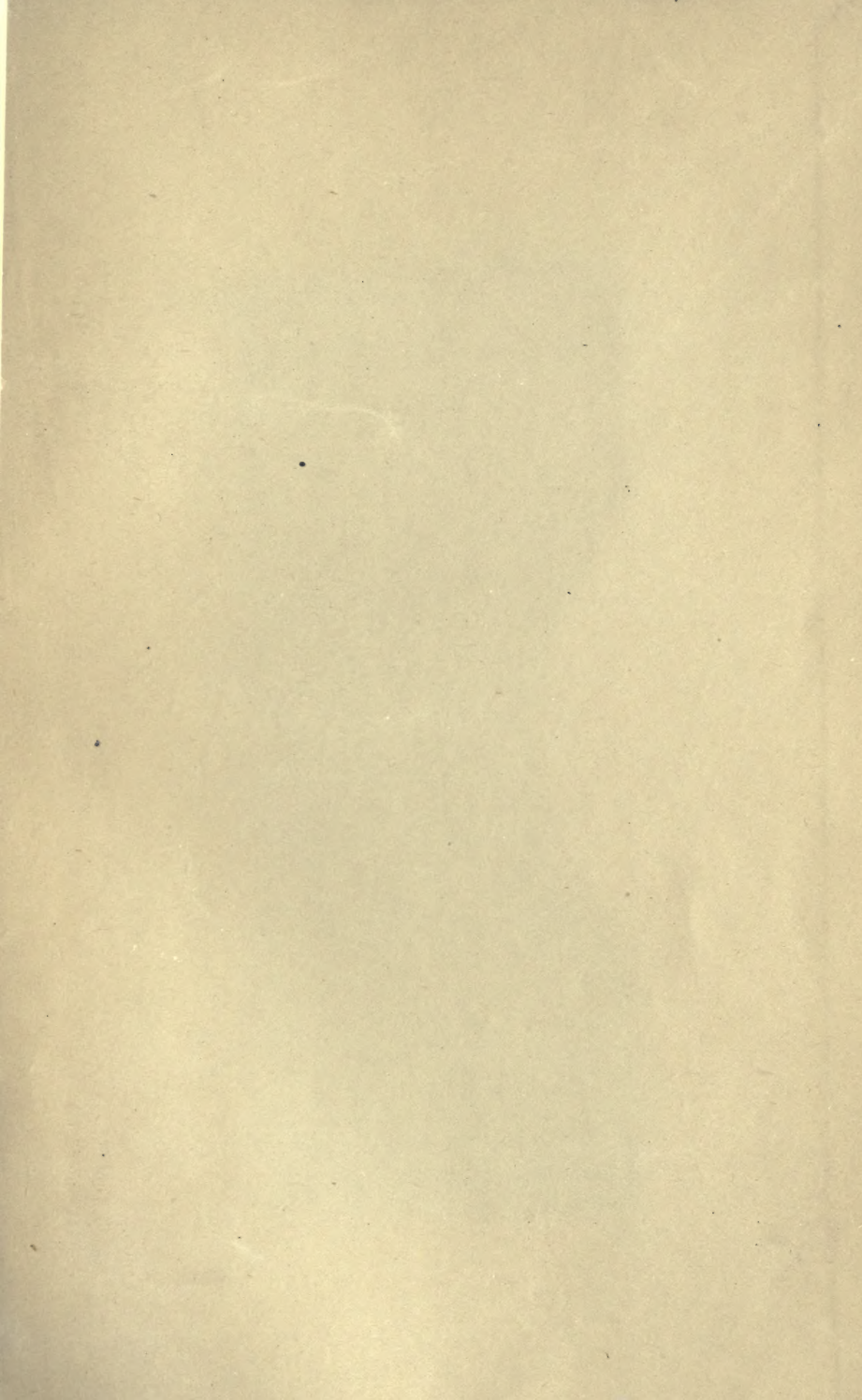
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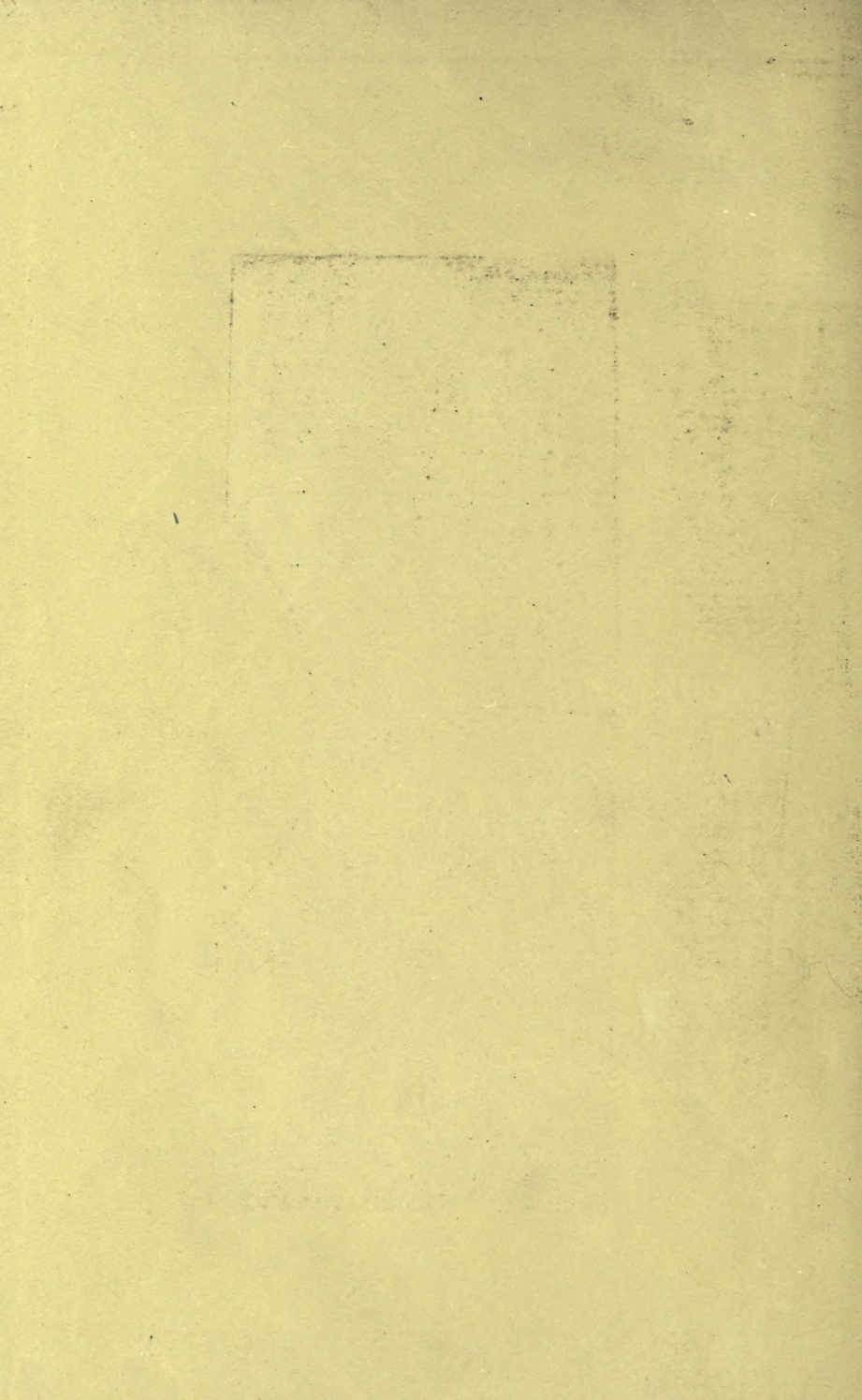
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